

### Reserve Strategy

#### Introduction and Background

Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan or be a stand-alone document.

In reviewing medium-term financial plans and preparing annual budgets, the Authority will consider the establishment and maintenance of reserves for the general fund. There is no statutory minimum or maximum level of reserves. The nature and level of reserves will be determined formally by the Authority, informed by the judgement and advice of the Assistant Director Resources / Treasurer. This will be based on an assessment of what is appropriate and necessary in the light of the circumstances facing the Authority.

#### Strategic Context

There are a number of reasons why a Local Authority might hold reserves, these include to:-

- (a) Mitigate potential future risks such as increased demand and costs;
- (b) Help absorb the costs of future liabilities;
- (c) Temporarily plug a funding gap should resources be reduced suddenly;
- (d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on council tax;
- (e) Spread the cost of large scale projects which span a number of years.

Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

**Long-Term Sustainability** - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant uncertainty about its grant funding over the medium term. Due to the fact that funding for future

Capital Projects and the IT Strategy is held as Earmarked Reserves, the overall level of reserves held by the Authority is currently still high, but will reduce significantly as these programmes are delivered.

Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

There are two different types of reserve, and these are **Earmarked Reserves** – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

**General Reserve** – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

### **Provisions**

In addition to reserves the Authority may also hold provisions which can be defined as: a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

### **Unusable Reserves**

The Authority will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be specified in the annual Statement of Accounts.

### **Governance**

The Authority will agree the level of General Reserves and the purpose and level of Earmarked Reserves.

Business cases for the establishment of new Earmarked Reserves will be subject to initial consideration by the Senior Leadership Team.

The Assistant Director Resources / Treasurer shall advise SLT and the Authority on the adequacy of both General and Earmarked Reserves, approve any drawdown from reserves and will monitor and report upon their use through regular financial monitoring reports.

### **Risk Assessment to Determine the Adequacy of the General Reserve**

A well-managed multipurpose authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, the Authority has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence

that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

The Authority currently sets its policy for the General Reserve at a minimum of 6% of its net revenue budget. Following a review as part of the budget setting process it is proposed that this is reduced to a minimum of 5%. The detailed risk assessment is attached at Annexe A and indicates that the overall assessed risk has reduced slightly since last year. Given that not all assessed risks are likely to crystallise in a single year it is deemed appropriate and to move to a lower minimum level of 5%. This aligns the Authority's General Reserves with the threshold set out in the National Fire Framework. A review of the NFCC's Survey of Fire Reserves indicates that the average level of General Reserves held will reduce from 7.0% (31/03/2019) to 5.6% (31/03/2020) and then below 5% by the end of 2022/23. The level of General Reserves held also reflects the current uncertainty about Fire Sector funding beyond 2020/21.

At the start of 2020/21, the General Reserve is forecast to represent 4.956% of the Authority's net revenue budget which is a small negative variance. Due to varying revenue budgets, maintaining a consistent level of General Reserve will result in the percentage varying over time. Transfers in or out of the General Reserve to conform to the 5% indicator would only be considered if there was significant variance or if resources were earmarked to another project.

The prudential indicator is a useful control measure but is a rudimentary way of assessing the adequacy of the general reserve and a more meaningful approach is to develop a risk assessment. The Authority will consider both measures as part of its annual reserve strategy.

A risk assessment of the adequacy of the Authority's General Reserve is carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the coming financial year, 2020/21, has been prepared as part of the budget setting process and is shown in Annexe A. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £2.300m. The proposed policy minimum of 5% equates to £1.977m. At the start of 2020/21 the General Reserve is expected to be £1.959m and it is planned to reduce by a further £0.097m by 31 March 2021. The Authority will need to consider options to bring the Reserve up to its policy minimum over the next financial year.

### **Annual Review of Earmarked Reserves**

The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy. When the Authority endorses the Reserves Strategy for publication it will be made available on its website.

A commentary on the purpose and planned use of each of the existing earmarked reserves is detailed below and a full listing together with phasing of drawdown is set out in Annexe B:

- **Improvement & Efficiency:** This reserve is to enable the Authority to develop its collaborative approach to service delivery, support changes to services that will deliver efficiencies and respond to priority areas for service improvement. This includes support for the Authority's transformation programme and any costs that may arise from it including redundancy payments. Collaborative projects are also being progressed with a number of potential partners, many of which may require proportionate pump priming funding to realise future financial savings for all partners involved. The forecast balance of £0.118m at 1 April 2020 is fully committed for example FireWatch Implementation, 3F collaboration and the IECR pilot. As part of the 2020/21 budget it is proposed to transfer an additional £0.5m into this reserve to provide for further investment in driving efficiencies.
- **Insurance:** The Authority has joined the Fire and Rescue Indemnity Company (FRIC) from 1 April 2019 to both improve its risk management practice and provide insurance cover. This reserve is intended to cover the financial costs of: in year supplementary payments to the FRIC pool should these be necessary; additional costs from the increase in some deductibles; and, investment in pro-active risk management initiatives resulting from best practice benchmarking through FRIC.
- **Mobilising Strategy Reserve (formerly SCC Reserve):** to facilitate to delivery of the Authority's mobilising strategy – this has included the Exit of WSCC from the joint control room, the development of Project 21 proposals and Phase 2 of the implementation of Remsdaq 4i (our current mobilising system. The approval of Project 21 proposals are reflected in the transfer of funding into this reserve which will be drawdown mainly in 2020/21.
- **Capital Programme:** To support the provision of the capital infrastructure required to deliver the Authority's strategic priorities. There has been no core capital grant from Government since 2014/15 so the Authority must fund its own investment in capital assets. £0.5m each year is paid into this reserve from the Authority's revenue budget. As a result of the planned investment in the IT Strategy and the Estates Strategy it is forecast that this reserve will be exhausted before the end of the current planning period.
- **Capital Receipts:** Capital receipts not yet applied to capital expenditure. Under statute capital receipts may only be used to finance capital expenditure. Having disposed of its stock of service houses and its HQ building the Authority has only one surplus property, Fort Road, Newhaven and this is due for disposal in 2019/20. No further disposals are currently planned and this reserve will be fully utilised over the life of the current Capital Asset Strategy, with the balance remaining at 31 March 2020 primarily being used to fund investment in the new Estates Strategy to bring our property assets up to the standard set out in the Design Guide.

Together the use of the Capital Programme Reserve and the Capital Receipts Reserve, along with other revenue funding, grants and contributions from partners has meant that the Authority has been able to finance its capital investment requirements without recourse to external borrowing since 2008.

- Sprinklers: as part of its policy of promoting the use of sprinklers the Authority has made provision for match-funding the retro-fitting of sprinklers in high risk / high rise residential premises. Two projects are currently underway, St. James House and Essex Place, and further plans are in the pipeline.
- Business Rate Pool (formerly Safer Business Training): This reserve holds the balance of income from the East Sussex Business Rate Pool which is to be used to fund Business Safety initiatives, in support of the Pool's aim to promote economic growth
- IT Strategy: The Authority has set aside funds to support the delivery of its IT Strategy including the contractual transformation milestones delivered by telent. This Reserve will be fully utilised by the end of 2021/22 however the base budget includes a contribution to this earmarked reserve of circa £450,000 per year which is expected to be wholly used in each year.
- ESMCP Readiness: this is grant funding from central government to fund the IT upgrades to the Sussex Control Centre that are required as part of the ESMCP. The timing of drawdown is dependent on national programme timescales and decisions about Project 21. Further discussion with the Home Office will be required to determine use of the grant as it was originally intended to fund improvements jointly for East and West Sussex through our joint control service which ended 4 December 2019.
- ESMCP Regional Programme: the Authority acts as regional lead for ESCMP implementation and holds grant funding for regional and local resourcing on behalf partner FRAs. The actual drawdown will depend on national decisions on roll out due to be concluded in 2020.
- Wholetime Firefighter Recruitment Reserve: the 2016/17 revenue budget underspend was set aside in this reserve to fund the additional costs of the planned recruitment of 32 new Wholetime Firefighters over the period 2017/18 to 2019/20. The phasing of the use of this reserve will be reviewed in the light of updated workforce planning information.
- Business Rates Retention Pilot: holds the additional income from the East Sussex Pilot and will be split between financial stability and economic development as set out in the Memorandum of Agreement with other partners. Following the decision of the Fire Authority in July 2019 the financial stability element (£0.480m) will be used to fund SCC related costs.

## **Annexe A – Risk Assessment of the Adequacy of General Reserves**

<b>Risk type</b>	<b>RISK</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Net Impact</b>
			<b>£m</b>	<b>£m</b>
<b>Abnormal weather conditions</b>	A long hot summer, flooding in autumn and winter and heath land fires in the spring have all occurred in previous years resulting in excessively high operational costs (retained pay, overtime) and other support costs. In worst-case scenarios for civil emergencies, the Bellwin Scheme funding is available to support qualifying expenditure in excess of 2% of Revenue Budget	Medium	0.300	0.150
<b>Pension Costs</b>	With an ageing workforce and the increase in the normal retirement age the risk of ill health retirements is increasing and may exceed the existing budget provision.	Medium	0.100	0.050
<b>External contracts</b>	The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier or a customer. The Authority maintains a bad debt provision based on aged debtor analysis but it would be insufficient to fully fund a loss from a major contract. Additionally, Public Sector procurement processes and contracts are coming under increasing scrutiny and could be open to legal challenge.	Low	0.500	0.125
<b>Capital Programme / Projects</b>	The Authority has a range of both revenue and capital projects planned for the next five years - there is the risk of cost overruns for a variety of reasons e.g. unforeseen ground conditions, planning approvals, technology risk	Low	1.000	0.250

<b>Risk type</b>	<b>RISK</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Net Impact</b>
			<b>£m</b>	<b>£m</b>
<b>Loss of income</b>	Income targets are set within the budget for a number of functions, for example commercial and service training, and the Authority also receives income from the investment of its cash balances where rates achieved remain low and may be pushed lower by UK's exit from the EU. Amounts invested will reduce significantly over the next few years. Although the amounts involved are small relative to the overall budget they continue to present a risk in year	Low	0.250	0.063
<b>Provision of services</b>	The Authority no longer has delegated responsibility for the delivery of mobilisation and control functions for West Sussex Fire and Rescue Service under a S16 agreement and therefore this risk has reduced significantly. Failure to provide the service to the agreed performance levels could result in additional costs for the Authority	Low	0.250	0.063
<b>Delivery of savings</b>	The Authority is developing its savings plans for the next 5 years and has already agreed a range of measures for implementation. However, it is possible that implementation may take longer than anticipated or savings may be less than originally estimated, leading to an in-year budget pressure. However for 2020/21 the savings target is relatively small	Low	0.500	0.125
<b>Legal Issues</b>	As a service provider and an employer the Authority faces the potential that legal action could be taken against it on a range of grounds, including equal pay, discrimination, unfair dismissal and corporate negligence / manslaughter. Awards and legal costs in such cases can be significant	Low	1.000	0.250

<b>Risk type</b>	<b>RISK</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Net Impact</b>
			<b>£m</b>	<b>£m</b>
<b>Service delivery failure</b>	Given the nature of the work of the Authority there is a possibility that it could suffer a major health and safety or environmental failure.	Low	1.000	0.250
<b>System/ Infrastructure Issues</b>	In the event that a key system, such as the control mobilising system or system networks, were to fail, it is possible that urgent consultancy or replacement equipment would be required within short time constraints.	Low	0.500	0.125
<b>Funding Issues</b>	The changes to the funding mechanism for local government, introduced following the Local Government Resource Review, transferred potentially significant levels of financial risk to the Authority.	Medium	0.500	0.250
<b>Inflation</b>	Whilst allowances for inflation have been made within specific budget lines, the uncertainty surrounding Brexit and the UK economy might lead to increased inflation.	Medium	0.200	0.100
<b>Employment Issues</b>	Issues that might arise in respect of pay settlements or other factors which might lead to industrial action would, in the first instance, be managed within the revenue budget. Prolonged Action or issues would require funding from Reserves. This risk also addresses the potential for actual pay awards to be higher than that budgeted.	Medium	1.000	0.500
<b>Estimated Reserve Requirement</b>				<b>2.301</b>

The planned movement on each of the earmarked reserves is shown in the following table:

Description	2020/21	2020/21	2020/21	Projected Closing Balance				
	Opening Balance 01/04/20	Planned Transfers In	Planned Transfers Out	31/03/21	31/03/22	31/03/23	31/03/24	31/03/25
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Earmarked Reserves</b>								
Improvement & Efficiency	118	500	(90)	528	260	0	0	0
Sprinklers	293	0	(293)	0	0	0	0	0
Insurance	249	0	0	249	249	249	249	249
RPE and Comms	0	0	0	0	0	0	0	0
ESMCP ESFRS readiness	1,425	0	(1,425)	0	0	0	0	0
ESMCP Regional Programme reserve	563	0	(259)	304	0	0	0	0
Responding to new risks Revenue	0	0	0	0	0	0	0	0
Business rates Pool Reserve	321	0	(155)	166	0	0	0	0
IT Strategy	1,937	549	(2,032)	454	0	0	0	0
Wholetime Firefighter recruitment	0	0	0	0	0	0	0	0
SCC Reserve	0	0	0	0	0	0	0	0
Mobilising Strategy	3,517	0	(3,329)	188	119	0	0	0
Business Rates Retention Pilot, financial stability	480	0	(480)	0	0	0	0	0

Business Rates Retention Pilot, economic development	70	0	(70)	0	0	0	0	0
Carry Forwards	0	0	0	0	0	0	0	0
Capital Programme Reserve	1,708	500	0	2,208	0	0	0	0
<b>Total Earmarked Reserves</b>	<b>10,681</b>	<b>1,549</b>	<b>(8,133)</b>	<b>4,097</b>	<b>628</b>	<b>249</b>	<b>249</b>	<b>249</b>
<b>General Fund</b>	<b>1,959</b>	<b>138</b>	<b>(97)</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>
<b>Total Revenue Reserves</b>	<b>12,640</b>	<b>1,687</b>	<b>(8,230)</b>	<b>6,097</b>	<b>2,628</b>	<b>2,249</b>	<b>2,249</b>	<b>2,249</b>
Capital Receipts Reserve	7,119	0	(5,540)	1,579	0	0	0	0
<b>Total Capital Reserves</b>	<b>7,119</b>	<b>0</b>	<b>(5,540)</b>	<b>1,579</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Usable Reserves</b>	<b>19,759</b>	<b>1,687</b>	<b>(13,770)</b>	<b>7,676</b>	<b>2,628</b>	<b>2,249</b>	<b>2,249</b>	<b>2,249</b>